

November 18, 2011

Hon. Kamala D. Harris
Attorney General
1300 I Street, 17th Floor
Sacramento, California 95814

Attention: Ms. Dawn McFarland
Initiative Coordinator

Dear Attorney General Harris:

Pursuant to Elections Code Section 9005, we have reviewed the proposed constitutional initiative concerning oil and gas severance taxes and a state bank (A.G. File No. 11-0051).

Background

Oil- and Gas-Related Taxation in California. Oil and gas producers pay state income taxes. Oil producers also pay a regulatory charge on production in the state or in state waters. Also, property owners pay local property taxes on the value of both extraction equipment such as drills and pipelines and underground oil and gas reserves. The State Constitution currently requires a two-thirds vote in each house of the Legislature to impose new taxes.

Proposal

Oil and Gas Severance Tax Allowable With Majority Legislative Vote. This measure would authorize the Legislature, with a majority—rather than a two-thirds—vote in each house, to impose a severance tax of 15 percent or more on the value of all oil and gas extracted in California or its state offshore waters, which extend out three miles from the coastline. Oil and gas produced in federal waters would be exempt. The severance tax revenues authorized by a majority-vote measure could only be used for a state bank described in this measure.

State Bank. This measure also would authorize the Legislature, with a majority vote in each house, to create the “Sustainable California State Bank.” The measure describes the bank’s organization, operation, and “mission and purposes.” These purposes include the promotion of:

- Sustainable agriculture, mining, industry, manufacturing, and affordable low-cost housing.
- Conservation.
- Renewable energy.
- Recycling of essential resources.

- Full employment.
- Economic equality.
- Sound government.
- Democratic participation of the citizenry.
- Worker-owned businesses and cooperatives.
- Modern infrastructure.
- Fair trade.
- A stable economy.
- Ecotourism.
- Public transportation.
- Community involvement.
- Holistic approaches to health, education, and science.
- Stewardship of a more natural and pollution-free environment.

Several Sources of Funds Possible. Deposits to the bank may come from the measure's potential oil and gas severance tax, public institutions in California, and private parties. Any income earned by the bank on state moneys deposited in or invested with the bank would become part of the bank's operating capital.

Fiscal Effects

Revenues Possible. If set at the minimum 15 percent rate, the severance tax would likely generate around \$3 billion annually in its first years. A wide range of revenues, however, is possible due to the wide fluctuation in oil and gas prices. Revenues would be proportionally higher if the rate were higher than 15 percent.

Other Fiscal Effects. Relatively minor economic changes related to the severance tax likely would result in reductions of other state and local revenues such as property and income taxes—perhaps totaling in the low tens of millions of dollars per year. The creation of a new bank not subject to taxes by the state or its political subdivisions likely would result in reductions of other state and local revenues such as property and income taxes from other financial institutions, but these effects are impossible to estimate. In addition, the measure would require a one-time state General Fund appropriation of \$200 million upon establishment of the bank. The measure states this would be repaid with severance tax revenues.

Summary of Fiscal Effect

This measure would have the following major fiscal effect:

- Possible increases in state revenues of \$3 billion or more per year initially, which could be used to establish a state bank. Possible, but unknown, decreases in other state and local revenues could result.

Sincerely,

Mac Taylor
Legislative Analyst

Ana J. Matosantos
Director of Finance